Export trade policy of the United Kingdom, 1913-1918. (Washington: Supt. Docs. 1918. 60c.)

Reconstruction of foreign and domestic markets. Part 1. *Manufacturing capacity and world trade.* (New York: Association of National Advertisers, 15 East 26th St. 1919. Pp. 36.)

Summarizes facts in regard to British industries before the war presented in the final report of the Committee on Commercial and Industrial Policy after the War. It also summarizes "key" industries of France and Germany.

Review of the trade of India in 1917-18. (Calcutta: Department of Statistics of India. 1919. Pp. 82. 1s. 2d.)

Trading with China; methods found successful in dealing with the Chinese. (New York: Guaranty Trust Co. 1919. Pp. 24.)

World trade. A list of books on world trade. Compiled for the United States Shipping Board by the Free Public Library of Newark, N. J. (Washington: Supt. Docs. 1918. Pp. 8.)

World trade conditions after the war; an analysis of the preparations England, France, and Germany are now making to extend their foreign trade. (New York: National Foreign Trade Council. 1918. Pp. 72.)

Accounting, Business Methods, Investments, and the Exchanges

Principles of Accounting. By William Andrew Paton and Russell Alger Stevenson. (New York: The Macmillan Company. 1918. Pp. xviii, 685. $3.25.)

Cost Accounting. By J. Lee Nicholson and John F. D. Rohrbach. (New York: The Ronald Press Company. 1919. Pp. xxi, 576. $6.00.)

Of these volumes, the first, *Principles of Accounting,* by Professors Paton and Stevenson, a revised and enlarged edition of an earlier volume by the same title, is of interest primarily to academic students and teachers. In its new form it is, if not the most serviceable, at least one of the most serviceable, of single-volume university texts in the field of general accounting principles.

After a brief introductory chapter, the materials are organized into six parts, as follows: I, Elements of Accounting; II, The Equity Accounts; III, The Interest Problem; IV, The Valuation of Assets; V, The Construction and Analysis of Financial Statements; and, VI, Special Fields of Accounting. This arrangement seems to be satisfactory for pedagogical purposes, and, with the possible exception of the insertion of the interest discussion in the middle of the volume, is logical enough.

The authors indicate in their preface (pp. vi-viii) that they consider the distinguishing feature of their work to be, first, a departure from the practice of stressing the proprietary interest in business enterprises; second, the presentation of a logical theory of valuation; third, emphasis upon the interest factor as one entering in an important manner into many concrete accounting problems; and fourth, failure to conform at all points to the terminology employed by professional accountants, business men, and public regulating bodies. Criticism of the volume may well be based upon these four features.

Hatfield uses as the fundamental accounting equation "goods = proprietorship,"[1] which, in its more elaborated form arranged in accordance with the account form of financial statement, reads "goods = proprietorship + debts" (*i.e.*, negative goods).[2] Similarly Kester modifies his fundamental equation, "assets = proprietorship," into "assets = liabilities + proprietorship."[3] Paton and Stevenson, however, are satisfied with "assets = equities" as the basis for explaining the use of debits and credits. They maintain, having in mind particularly the compromises and sacrifices made at times of corporate reorganization, that, in view of the complexity of rights of holders of corporate securities, it is impossible always to differentiate sharply between proprietors and creditors in any but a strictly legal sense. There is an element of truth in their contention. But it is doubtful whether the point is deserving of the importance assigned to it. The accountant is concerned with businesses enjoying the blessings of health as well as with those suffering from financial and other diseases and disturbances. While he may function in an important manner when corporations are reorganized, he is also, and perhaps even more, in demand when business troubles are not apparent. Is it not reasonable to suppose that an accounting philosophy based upon a clear recognition of pure proprietorship, instilled into the minds of future accountants, might be instrumental in no small degree in eliminating the necessity for reorganization sacrifices?

Criticism may be pressed even farther. The authors do not appear to have made much use of their point. Three of the four chapters in part II (The Equity Accounts) deal with the accounting treatment of the pure proprietorship element. The short re-

1 *Modern Accounting*, p. 9.

2 *Ibid.*, p. 14.

3 *Accounting—Theory and Practice*, vol. I, pp. 14, 15.

maining chapter discusses the "outside" equities, or liabilities. These are grouped as (a) accounts and notes payable; (b) accrued, deferred and contingent liabilities; and (c) mortgages and bonds. To quote a few significant passages:

> The interests represented by the accounts payable are usually *equities*[4] in the enterprise only in a limited sense (p. 315).

> The equity of the noteholders . . . may constitute in a given case an important element in total ownership; and the interest accrued on notes payable may represent a significant distribution of net revenue. . . . More commonly, however, specific notes and accounts payable are liabilities which must be actually paid in cash within a comparatively short period. If the noteholder does not contemplate an actual investment in the enterprise of the maker of the note, he will usually insist upon withdrawing his capital upon the termination of the contract (p. 318).

> Accrued liabilities are current claims which are recognized at the time of closing the books. . . . Such items are usually retired within a few days or weeks after the books are closed. Liabilities of this kind usually do not assume significance in amount, and hence do not represent an important element in the ownership of an enterprise. The laborer, for example, does not make an investment in the enterprise in the ordinary sense (pp. 318-319).

It is suggested that contingent liabilities be omitted from the books proper (p. 321). In effect, then, the liabilities which for practical purposes may be considered important equities are reduced to mortgages and bonds outstanding.

This concept of liabilities as equities, if not exactly fantastic, is, then, of dubious usefulness. Or at least it has been little used by the authors. There is objection to it on pedagogical grounds. It is not unlikely that teachers who have found the concept of liabilities as negative assets to be a quite satisfactory tool for laying down the necessary foundation of double entry bookkeeping will regard this innovation as unfortunate.

Needless to say, the considerations outlined in the preceding paragraph are closely related to the fourth feature of the work, departure from accepted terminology. Certain definitions, as, for example, that of revenue, must be reformulated to be strictly consistent with the bookkeeping philosophy presented. In general, however, the authors have taken pains to call attention to departures from customary business, professional, or official usage.

Professors Paton and Stevenson are to be commended for their handling of what they term a logical theory of the valuation of assets—that is, a theory which recognizes the propriety of record-

[4] The italics appear in the book.

ing appreciation as well as depreciation. It is one thing to teach university students the facts of accounting and business practice. It is quite another, more difficult and more important, to discuss critically a logical procedure. The authors have attempted both tasks, with a fair degree of success, and have presented a formidable case for what they consider the logical procedure. Objections are frankly stated and as frankly answered. The treatment should be characterized as progressive rather than as radical or unsafe. It is recognized that satisfactory standards for the measurement of appreciation must be evolved, that appreciation should not be recorded until it is known assuredly to have occurred, and that conservative business management will make careful and discriminating disposition of book profits resulting from the logical procedure.

In part III there are presented chapters dealing with the general analysis of the interest problem, interest calculations of several types frequently used by accountants, and the accounting procedure covering the interest factor in both asset and equity accounts. These materials are so arranged as to make easily possible abbreviation of this topic for classroom purposes to fit the needs and purposes of the instructor.

Like the volume just reviewed, Nicholson and Rohrbach's *Cost Accounting* is a revision of an earlier volume[5] and represents a forward step in its particular field. The material presented is chiefly descriptive. There are seven distinct parts of the book, and the last preceding statement applies particularly to the first four parts, designated as follows: I, Elements and Methods of Cost-Finding; II, Factory Routine and Detailed Reports; III, Compiling and Summarizing the Cost Records; IV, Controlling the Cost Records. Part V, The Installation of a Cost System, is both descriptive and suggestive. Part VI, Simplified Cost Finding Methods, is again chiefly descriptive.

Part VII, Cost-Plus Contracts, is analytical and suggestive, and contains that which will be regarded by many as the most valuable material in the volume. In 1917 and 1918 the senior author was Supervising Cost Accountant in the Ordnance Department of the United States Army, having the rank of Major. Previous to this he was chief of the Division of Cost Accounting of the Department of Commerce. The filling of these positions

[5] J. Lee Nicholson, *Cost Accounting, Theory and Practice.*

gave him ample opportunity to become familiar with the war contract situation in its accounting aspects. In the summer of 1917 he was chairman of a conference of delegates from the War, Navy, and Commerce Departments, the Federal Trade Commission, and the Council of National Defense. This conference, in a pamphlet issued July 31, 1917, made certain recommendations regarding government contracts, and these recommendations are presented verbatim in chapter 30 of the book under review. Chapters 31 and 32 contain the senior author's personal, not official, opinions concerning the correct accounting procedure in the handling of cost-plus contracts. In chapter 33, likewise, are found his personal opinions regarding the proper terms of cancellation of such contracts. These chapters are most timely and will be read with interest by professional accountants and contractors.

The materials of the volume are well organized. The reader is given a bird's eye view of the problems dealt with, and is then shown in detail the development of cost and controlling records from the various business and factory forms. The authors have taken pains to emphasize relationships, presenting frequent summary charts. Fundamentals regarding the forms for orders, reports, and records have been illustrated, and the mistake has not been made of confounding multiplicity of illustration with clarity of exposition.

The volume is intended for use by accountants, manufacturers, and students. Members of the first two groups will find particularly useful the information contained in the tables of approved depreciation rates for different types of assets (pp. 145-153), as well as the discussion of the relationship between overtime and the modification of standard depreciation rates (pp. 156-161).

The authors have avoided for the most part the introduction of controversial theoretical topics. In dealing with the admittedly controversial question as to whether it is proper to treat normal interest return on passive investment as a part of manufacturing costs, the position is taken that interest on fixed assets should be so charged, but not interest on floating capital investment. The charging of some interest item is considered necessary to the successful distribution of overhead. Or, more exactly, normal return on passive investment is regarded as overhead to be distributed among the factory products. The writer of this chapter (IV) considers that the opposition argument is directed chiefly at the practice of making these charges as part of the regular costs,

not at the mere calculation thereof for use in statistical report form in the quotation of prices. He therefore suggests (p. 140) an accounting procedure supposed to meet this objection.

The opposition view is presented forcefully by Professors Paton and Stevenson on pages 613-615 of their general text. To these writers, interest charges, whether contractual or non-contractual, are distribution-of-income, not expense, items. But, they say, if these charges are to be made at all, the logical procedure would be to distribute among the factory products the normal return on all the capital invested, not that on the fixed assets only. With this last contention, at least, the reviewer is inclined to agree. But Professors Paton and Stevenson appear to believe that the problem in hand is being solved on other than logical ground. For they say: "The use of interest charges in cost accounts on anything like a rational basis is a procedure which faces almost insurmountable practical obstacles. It is probably this fact rather than the logic of the case that is causing cost accountants to begin to recover from the interest obsession" (p. 615).

Not improbably the issue is beclouded by reason of the different points of view involved. The cost accountant wishes, among other things, to furnish the selling department adequate data upon which to base a price policy. The general accountant has in mind the preparation of correct, unpadded statements of condition and of operation. For the purposes of the one certain information is needed, which by the other should be discarded. Reconciliation of the opposing ideas ought to be possible, perhaps along the lines suggested by Messrs. Nicholson and Rohrbach.

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Public Utility Rate Fixing. By C. E. GRUNSKY. (San Francisco: Technical Publishing Company. 1918. Pp. 168. $2.50.)

Articles which were originally published in the *Journal of Electricity* are now brought together in this collection with very little change in the text. As articles, each was prepared to stand complete by itself; consequently, as a book, they do not hang very well together, present a great deal of repetition, and do not cover adequately the ground of public utility rate fixing. But whatever the technical defects of the book, which are recognized by Mr. Grunsky, the author is an eminent authority on valuation and rate